

STATE OF NEW YORK
STATE TAX COMMISSION

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In the Matter of Petition :
 of :
WESTERN UNION TELEGRAPH COMPANY :
for redetermination of deficiency :
of franchise tax under Section 183 :
of Article 9 of the tax law for :
the privilege year begun January 1, :
1972. :

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The taxpayer having filed petition for redetermination of deficiency of franchise tax under Article 9 of the tax law for the privilege year begun January 1, 1972, and a hearing having been held in connection therewith at the office of the State Tax Commission, 80 Centre Street, New York City, at which hearing C. W. Parowski, director of tax accounting, and A. C. Franzoi, manager of tax accounting, appeared and the record having been duly examined and considered by the State Tax Commission,

It is hereby found:

(1) The taxpayer was incorporated in New York State in 1851 and is subject to tax as a telegraph company under Section 183 of the tax law. It filed a return on form CT-40 for the privilege year begun January 1, 1972 (based on the calendar year 1971), indicating a value of \$482,151,345.00 for its capital stock at Schedule A, item 1, computed as follows:

Total assets as of 12/31/71	\$1,072,007,702.00
Less revaluation of assets as of 12/31/71	134,670,745.00
Less total liabilities as of 12/31/71	455,185,612.00
Net value of issued capital stock	482,151,345.00

(2) A schedule submitted for revaluation of assets is as follows:

Allowance for Obsolete Materials	\$ 61,401,489.00
Capitalized Research and Development Expenses	32,073,107.00
Capitalized Interest and Overhead Expenses	41,196,149.00
Total	<u>\$ 134,670,745.00</u>

(3) The taxpayer's books and accounts are maintained in accordance with regulations of the Federal Communications Commission. Its annual report to stockholders, its Federal Corporate Income Tax Return and all reports to the Federal Communications Commission are based on such books and accounts.

(4) The taxpayer maintains a reserve for depreciation of assets but no separate reserve for obsolescence is maintained on its books. Additions to the reserve for depreciation are deductible in computing federal taxable income and no additional deduction is claimed or allowed for obsolescence. Research and Development expense and certain interest and overhead expenditures are capitalized and are not deducted in computing income and such capitalized expenditures are considered as capital for purposes of setting rates to be charged.

(5) The Corporation Tax Bureau issued a statement of audit adjustment dated December 15, 1972, and notice of deficiency computed as follows:

Total assets as of 12/31/71	\$1,072,007,702.00
Less total liabilities as of 12/31/71	455,185,612.00
Adjusted net value of issued capital stock	616,822,090.00
Allocated at 4.72177%	29,124,920.00
Tax at .0015	43,687.38
Tax reported	34,149.12
Deficiency	9,538.26

(6) Section 183.3 of the tax law reads in part:

"Every corporation . . . subject to taxation under this section shall, in any event, pay annually a minimum tax of not less than seventy-five dollars nor less than one and five-tenths mills on each

dollar of such a portion of the net value of its issued capital stock, which net value for the purpose of this section shall be deemed to be not less than five dollars per share, as may be determined upon such of the bases herein provided for the measurement thereof as is applicable. The term 'net value' as used in this section shall be construed to mean not less than the difference between a corporation's assets and liabilities, and not less than the average price at which such stock sold during the year covered by the report which forms the basis for the tax."

The State Tax Commission hereby

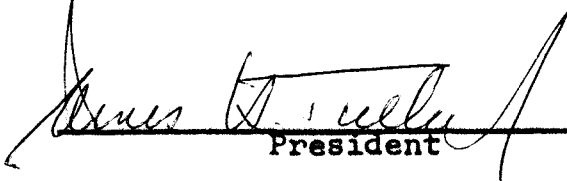
DECIDES:

(A) Inasmuch as taxpayer's books and accounts, computed in accordance with regulations of the Federal Communication Commission, are the basis of federal regulation and taxation, including the setting of rates, the amounts reported therein as assets and liabilities were properly used in the computation of the difference between assets and liabilities required by Section 183.3 of the tax law.

(B) The notice of deficiency as set forth at (5) above is affirmed, together with interest in accordance with Section 1084 of the tax law.

Dated: Albany, New York
this 3rd Day of July 1975.

STATE TAX COMMISSION


President


Commissioner


Commissioner